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FISCAL IMPACT STATEMENT

LS 6787	**NOTE PREPARED:** Jan 7, 2010
BILL NUMBER: HB 1086	**BILL AMENDED:**
SUBJECT: Property and Local Income Taxes.	
FIRST AUTHOR: Rep. Welch	**BILL STATUS:** As Introduced
FIRST SPONSOR:	
FUNDS AFFECTED: X GENERAL DEDICATED FEDERAL	**IMPACT:** State & Local

Summary of Legislation: *Maximum Levy:* This bill specifies that the use of a cash balance to reduce a property tax rate does not reduce a civil taxing unit's maximum permissible levy.

Standard Deduction: The bill permits an individual to receive both a senior citizen property tax deduction and a supplemental standard deduction.

Delinquent Taxes: This bill requires payment of certain delinquent property taxes before removing property from the tax sale list or allowing a person to record a plat of a subdivision or a transfer of real property.

Deadlines: The bill changes deadlines for filing amended personal property tax returns, filing a rehabilitation property tax deduction application, and adopting changes in local income taxes.

Pension Balances: The bill permits surplus property taxes imposed to pay police and fire pension obligations from the 1925 Fund, 1937 Fund, or 1953 Fund to be used to pay the administrative expenses of the fund or to pay for the costs of health benefits of the beneficiaries of the fund.

Public Safety LOIT: This bill permits townships and fire districts to receive distributions from a public safety local option income tax (LOIT).

Fire Protection Territories: The bill permits fire protection territories (FPT) to delay part of an increase in property taxes for up to three years and to maintain reserves of up to 50% of its operating budget.

LOIT Credits: The bill requires surplus LOIT revenue to be used as property tax replacement credits.

Bonds: This bill provides that the maximum term of certain bonds begins from the date of issuance.

Miscellaneous: The bill defines the term "mobile home community" for the purposes of the property tax laws. It also corrects references to the definition of homestead, removes references to obsolete administrative rules related to inventory, and makes other technical changes to property tax laws.

Effective Date: Upon passage; March 1, 2008 (retroactive); January 1, 2009 (retroactive); January 1, 2010. (retroactive); May 15, 2010 (retroactive); July 1, 2010; January 1, 2011.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: *Delinquent Taxes:* Under current law, a transfer of ownership interest for a real property parcel that results from either a split or a combination of parcels may not be recorded until all past due property taxes are satisfied and the county auditor makes an endorsement. This bill would also require payment of past due taxes and the auditor's endorsement before property is removed from the tax sale list and before a division, partition, or ownership change is made for any reason. This provision could increase the number of property transfers that would have to be endorsed by the county auditor.

Pension Balances: Under HEA 1001-2008, the state funds 100% of the cost for the pre-1977 public safety pensions, beginning in CY 2009. Under this bill, civil taxing units would be permitted to spend any unused balances that they have accrued in those funds to pay the costs of local administration of the fund and for health benefits for members of the fund and their beneficiaries.

LOIT Credits: Under current law, the Department of Local Government Finance (DLGF) must calculate and certify the county homestead credit percentage for the LOIT-funded homestead credit. Under this bill, each county would make their own calculation. The bill also specifies that revenue remaining after LOIT property tax replacement is paid, if any, must be used for property tax replacement in subsequent years.

Bonds: Under various current statutes, obligations for debt must be repaid within a specified number of years. Some statutes specify that the term begins after the obligation is issued and some do not. The bill clarifies that the term limits begin after the obligations are issued.

Explanation of Local Revenues: *Maximum Levy:* Under current law, civil taxing unit maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The growth factor is applied to the sum of the previous year's actual controlled levy *after eliminating the effects of temporary adjustments to the working maximum levy*, plus one-half of the amount of maximum levy in the previous year that was not levied.

Under this bill, a cash balance used by a taxing unit to temporarily reduce the actual levy would be treated as property taxes in the maximum levy calculation. So, the following year's maximum levy calculation would be based on the unreduced levy amount. This provision could encourage taxing units to use cash balances and temporarily reduce levies without losing any levy authority.

Standard Deduction: Under current law, homeowners who receive the senior deduction may not receive any other deductions except for the mortgage deduction and the traditional standard deduction. The new supplemental homestead standard deduction is automatically granted to any homeowner that receives the traditional standard deduction. This bill clarifies that senior taxpayers may receive both the over-65 deduction and the supplemental standard deduction.

Deadlines - Amended Property Tax Returns: Under current law, business personal property tax returns must be filed by May 15^{th} of each year. The local assessor may grant an extension through June 14^{th}. Taxpayers may also file an amended return within six months of the filing date or extended filing date if an extension was granted. Beginning with tax returns originally due on May 15, 2010, this bill would allow an amended return to be filed within the 12 months following the normal or extended filing date.

Currently, if an amended return is filed by July 15^{th}, the tax bill payable in the following year reflects the updated values. If the amended return is filed after July 15^{th}, the tax bill payable in the following year is based on the values reported on the original return. Overpayments, if any, are credited to the taxpayer's tax bill for the next tax year. Credits for overpayments reduce property tax collections in the year in which they are applied.

Since current law already addresses the payment schedule for amended returns filed after July 15^{th}, the additional six months granted by this bill to file an amended return should have no impact on current year tax collections. If the longer amendment period encourages the filing of additional amended returns, then subsequent year tax collections could be affected.

Deadlines - Rehabilitation Property Tax Deduction Applications: Under current law, an application for a rehabilitated property tax deduction must be filed in the year of assessment or within 30 days of receiving a notice of assessment if received before *December 31^{st}*. This provision would allow the filing within 30 days of receiving a notice of assessment if received before *December 1^{st}*.

Deadlines - LOIT Changes: Currently, most LOIT rate adoptions, rescissions, or changes must be adopted between April 1^{st} and July 31^{st}, inclusive, to be effective in the year adopted. Under this bill, adoptions, rescissions, or changes may be made at any time in a year before November 1^{st}. This provision could result in faster implementation of LOIT changes adopted by a county. The effective dates, based on adoption date, are as follows.

Proposed Effective Dates For New or Increased LOIT Rates	
Adoption Date	**Effective Date**
January 1 to September 30	October 1
October 1 to October 15	November 1
October 16 to October 31	December 1

Proposed Effective Dates For Rescinded or Reduced LOIT Rates	
Adoption Date	**Effective Date**
January 1 to September 30	Later of : October 1 or same month as last rate increase
October 1 to October 15	Later of : November 1 or same month as last rate increase
October 16 to October 31	December 1

Public Safety LOIT: Under current law, counties may adopt a public safety LOIT if they have also adopted either the property tax freeze LOIT or the property tax credit LOIT. Revenue from the public safety LOIT is distributed to the county taxing unit and municipalities using the county's normal LOIT distribution basis. In addition to the county unit and municipalities, this bill distributes part of the revenue to townships and fire protection districts beginning in CY 2011.

Eighteen counties will impose a public safety LOIT in 2010 with a total certified distribution of $104.6 M. The table below shows an illustration of this bill’s effect on public safety LOIT distributions by unit type. The provision is effective in 2011, with the illustration based on 2010 distributions.

Illustration of Public Safety Local Option Income Tax Distribution (Using 2010) (In Millions)			
Unit Type	**Actual**	**Proposed**	**Change**
Counties	$ 77.3	$ 63.0	$ -14.2
Municipalities	27.4	24.5	-2.8
Townships	-0-	16.8	16.8
Fire Protection Districts	-0-	0.3	0.3
Total	$104.6	$ 104.6	$ 0
Note: Totals off due to rounding.			

Fire Protection Territories: Under current law, the legislative bodies of at least two contiguous taxing units may establish a fire protection territory. All units involved in the FPT are participating units, one of which is the provider unit. During the first three years of the territory’s existence, the participating units each impose a property tax levy to support the FPT. After three years, the provider unit imposes a levy and tax rate upon all of the property in the FPT and the other participating units’ levies for fire protection are eliminated.

Prior to the passage of HEA 1001-2008, a participating unit’s maximum levy could be increased in the first three years in order to generate the unit’s share of the amount necessary to fund the FPT. Under HEA 1001-2008, the levy for an FPT could not increase in any year by more than the income-based assessed value growth quotient (AVGQ), about 3% per year.

However, under HEA 1001-2009ss, new participating units will submit their first-year proposed budget, levy, and tax rate for the FPT to the DLGF. The initial levy set by the DLGF is the basis for future levy growth under the AVGQ growth limits, except that the DLGF may reduce the base by all or a part of the initial levy that was used to establish an operating balance. The operating balance may not exceed 20% of budgeted expenses.

Under this bill, a civil taxing unit may petition the DLGF for an increase in its maximum levy to meet its obligations to the FPT. The DLGF may grant increases over a three-year period, allowing for a reasonable operating balance, not to exceed 50% rather than 20%. This provision would permit more flexibility in setting maximum levies in the first three years. Initial levies could be higher under this bill to build an operating balance if the DLGF determines that the reasonable operating balance exceeds 20% of expenditures.

In addition, this provision would allow a civil taxing unit petition the DLGF for a maximum levy increase if: (1) the unit initially imposed a levy for an FPT in 2008 or 2009, (2) the FPT developed a plan before January 1, 2009, that anticipated increasing the levy over two or three years, and (3) has insufficient funds to operate and meet obligations. Property tax levies could rise for these units under this provision. The amount of increase would be determined by the DLGF.

State Agencies Affected: DLGF; State Budget Agency.

Local Agencies Affected: County auditors; County councils and income tax councils; Municipalities; Townships; Fire protection districts; Fire protection territories.

Information Sources: Local Government Database, DLGF.

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